PREFATORY NOTE

These transcripts have been produced from the original raw transcripts in the FOMC Secretariat's files. The Secretariat has lightly edited the originals to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcripts were not fully edited for accuracy at the time they were produced because they were intended only as an aid to the Secretariat in preparing the records of the Committee's policy actions. The edited transcripts have not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Federal Open Market Committee

Conference Call

April 29, 1983

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Gramley
Mr. Guffey
Mr. Keehn
Mr. Martin
Mr. Morris
Mr. Partee
Mr. Rice
Mr. Roberts
Mr. Wallich

Messrs. Boehne, Boykin, and Corrigan, Alternate Members of the Federal Open Market Committee

Messrs. Balles, Black, and Ford, Presidents of the Federal Reserve Banks of San Francisco, Richmond, and Atlanta, respectively

Mr. Axilrod, Staff Director and Secretary
Mr. Bernard, Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Oltman, Deputy General Counsel
Mr. Truman, Economist (International)

Messrs. Balbach, R. Davis, Eisenmenger, Ettin, Prell, Scheld, and Zeisel, Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account
Mr. Cross, Manager for Foreign Operations, System Open Market Account

Mr. Coyne, Assistant to the Board, Office of Board Members, Board of Governors
Mr. Kohn, Associate Director, Division of Research and Statistics, Board of Governors
Mr. Lindsey, Deputy Associate Director, Division of Research and Statistics, Board of Governors

Messrs. Burns, Keran, Koch, Mullineaux, and Stern, Senior Vice Presidents, Federal Reserve Banks of Dallas, San Francisco, Atlanta, Philadelphia, and Minneapolis, respectively

Messrs. Broaddus, Cacy, Meek, and Soss, Vice Presidents, Federal Reserve Banks of Richmond, Kansas City, New York, and New York, respectively

Transcript of Federal Open Market Committee Conference Call of April 29, 1983

[Secretary's note: The roll call and opening statements by staff were not transcribed.]

VICE CHAIRMAN SOLOMON. Paul, this is Tony. It seems to me that the current situation reflects the clause in the last FOMC directive that lesser restraint would be acceptable in the context of more pronounced slowing of growth in the monetary aggregates, etc. And I think we ought to give serious consideration to a cut in the borrowing level assumption. In theory, a cut of $100 million from $250 to $150 million would give us about a 25 basis point reduction on average in the fed funds rate. On top of that there probably would be some psychological effect and we might get a drop over a period of time down to as low as the 8 to 8-1/4 percent area. It seems to me that there's some advantage in doing that because all the arguments, including both the international side and the high level of real interest rates, are on one side with this very major slowing. It also seems to me that we would want to see that development first before considering a discount rate cut. And next week there are three days of Treasury refunding, so that it would be very hard to do a discount rate cut in the middle of that or the day after. Any discount rate cut probably would come in the early part of the following week, so we would have about a 10-day period before we could give that really serious consideration and in which we could have a working out of this reduction in the borrowing level. We ought to have some discussion and serious consideration of doing this.

MR. PARTEE. Tony, this is Chuck Partee. I think you're a little premature in your conclusion that the growth rate in the aggregates has dropped off very markedly. We only have April. I would be more inclined to think that if May does not show a sharp rebound, as Steve apparently is projecting, but continues at a moderate rate, then there would be a basis for what you say. But at this point it seems to me we only have one month and it very well may be a sport. It's too early to take the kinds of actions you're suggesting.

VICE CHAIRMAN SOLOMON. Even if May showed a rebound of the magnitude that I understand is being considered, growth would still average out for April and May at only 5 percent.

MR. PARTEE. Well, as I recall, the projection for the quarter was on the order of 8 percent for M2 and I've forgotten what the M1 projection was. So, remembering that we've had very strong [growth] over an extended number of months in the case of M1 and over several months in the case of M2, it seems to me that people would think it pretty fast to be reacting [now].

VICE CHAIRMAN SOLOMON. But you would agree, Steve, that the average of April and May would still represent a significant slowing compared to the growth rates we've been seeing all this year. And given the facts--and I'm thinking particularly of the international side as well as the solidifying of the recovery here and the slowing of the inflation rate--there would seem to be a lot of good reasons for some modest reduction. If we wait until we see May data, we're talking about waiting maybe five to six weeks--

MR. PARTEE. Or several weeks.

VICE CHAIRMAN SOLOMON. --before we have a clear idea. And we may be losing an important period of time.

MR. PARTEE. That's on the presumption that we are going to be moving in an easing direction. If that's incorrect, we're not losing an important period of time, we're avoiding an error.

CHAIRMAN VOLCKER. Does anyone else want to enter into this at this point?

MR. GUFFEY. Mr. Chairman, Roger Guffey. I would like to join Tony for some of the same reasons, but I would restate some reasons that I have put to the Committee before. It seems to me that we should take advantage of a "window" to move interest rates a bit lower in the period ahead, and the window may be within the next couple of weeks. Even if it's a mistake, as suggested by Chuck, I'm more concerned at the moment that we do indeed continue the recovery than I am with the fear that there is a possibility for some fairly strong growth in the aggregates in the second quarter.

CHAIRMAN VOLCKER. Does anybody have any real questions about the recovery at the moment?

MR. MARTIN. Well, I would like to enter my usual caution with regard to the so-called housing recovery, Paul. We're still not sure of the new housing sales. The anecdotal evidence from developers is that these are still predominantly and unusually first-time buyers, and that sort of market can weaken very readily.

MR. MORRIS. Mr. Chairman, this is Frank Morris. I'd like to be recorded as supporting Tony Solomon's position as well. If we look at the performance of the broader aggregates, we simply don't find the kind of enormous bulge that we have had in M1 and M2. Without being too repetitious, I simply don't think that they have been giving us a proper clue as to what policy ought to be doing.

MR. GRAMLEY. Mr. Chairman, this is Lyle. I agree with Frank's last comment that the aggregates have not been giving us an indication of what is happening to monetary policy. And I would be <u>strongly</u> opposed to the use of one month's prospective reduction in the growth rates from very high paces to take action to lower interest rates. I interpreted Jerry Zeisel's comments as indicating that by and large the recovery is coming along as well as we could have expected. There are the same kinds of weaknesses and question marks that we had at the time of the FOMC meeting, but nothing new in that respect. I think we ought to wait until we have a clearer indication before we take precipitate action to lower interest rates.

MR. WALLICH. Mr. Chairman, this is Henry. It seems to me we've reversed ourselves here. The main concerns of the present time are on the international side and there's quite a bit of reason for trying to get to lower real rates. Domestically I see very little. The economy seems to be moving slowly but fairly stably. So we have now a situation where international considerations urge ease but domestic considerations do not. In short, I think we ought to wait.

MR. ROBERTS. I'd like to be associated with those who want to wait. I think one month is much too early to start fine-tuning, particularly when the economy seems to be moving along all right here.

CHAIRMAN VOLCKER. I think we're all aware that that directive has a clause in it saying that we would ease in a sense--automatically is too strong a word--if we had a convincing lower [monetary] growth rate over a period of time. I myself think it's premature to do it now after one month, with confusion about IRA/Keogh accounts, seasonals, and mainly the fact that it's only one month. And the latest indication we have is that the trend may be rebounding a bit. I think we just have to wait and see a few more weeks and not get caught in a move that we may want to reverse quickly. But I think it's a legitimate question to be raised and to watch in coming weeks. I would assume, and I won't raise the question, that the directive is certainly valid. I don't think we have to vote on anything.

MR. BOEHNE. Mr. Chairman, at the last meeting you indicated that if there was any erring in policy, given the recovery and the strong aggregates, that one would tend to err a little on the high side rather than the low side. It would seem to me, while it might be premature for any significant change in policy, that the erring ought to be more neutral and not have that bias on the high side.

CHAIRMAN VOLCKER. I would say in that respect that we already have unbiased errors. We are not trying to err--well, we never do try to err on anything--but there currently is no attempt to bias the errors, as you put it.

MR. MARTIN. Snugging is dead. Is that right?

SPEAKER(?). Unbiased.

CHAIRMAN VOLCKER. We have a straightforward aim that is not always reflected in results. We had very high borrowings at the end of last week. Everything was more or less on track and then went off right at the end of the week. As a result, borrowings started out heavy this week. So we may have more than $250 million of borrowings this week, but not because we're aiming at that; it's just because we already have them on the books, which I suppose technically will mean that the markets will ease after the weekend sometime, maybe around 4:00 p.m. Wednesday afternoon. But, obviously, we are and have been operating in a very narrow range. If there is not a strong feeling otherwise--in terms of riding with the existing directive under those understandings and watching this as it evolves to see whether we do get a May rebound or not--I think we can conclude.

SPEAKER(?). I think we've lost you again.

CHAIRMAN VOLCKER. What?

MR. RICE. They can't hear you.

SPEAKER(?). We've lost you again.

CHAIRMAN VOLCKER. I just said that I don't think we need to talk about changing the directive. We have a directive. I interpret it at this point, on the basis of the discussion I've heard, that we're not going to do anything or even talk about doing anything very significant anyway, but that we'll play an unbiased approach for the next few weeks and watch how things develop. If we have a strong indication of a confirmation of the April trend, obviously, things will look differently; if the aggregates are rebounding, then for the moment, unless it's an enormously strong rebound, we will still be on track in terms of the aggregates. Just to see if that's acceptable, I will pause for 10 seconds.

Let me just turn very briefly to a couple of other things as a matter of information. We have had a request for the Redbook to be sent regularly to the Congress. We wouldn't want to do that without some expurgation. I have agreed to do it, but I think it's better to do it in a non-Redbook form. So, I'm going to be sending a request to change the format a bit. I don't know the details; maybe we'll do it slightly more frequently. Essentially it will be the same regional document, which will be given to one Congressional Committee--not necessarily for publication, but it may end up that way sometime down the road.

SPEAKER(?). We lost you.

CHAIRMAN VOLCKER. Well, you didn't lose anything very important because I will be communicating with you in writing on what we're going to do with the Redbook.

SPEAKER(?). Okay.

CHAIRMAN VOLCKER. I might just note for your information that we continue to get, because of budget resolutions or whatever, these various resolutions on monetary policy. I think you should be aware that there is a more concerted review under way of the Humphrey-Hawkins Act directive, clearly with the intention at this stage of changing it to reduce or eliminate the emphasis on the aggregates. How that will materialize, I don't know, because there's going to be a series of hearings and we will be testifying I think late in June. This is a direct review of the matter by the appropriate committee and it will be rather interesting to see how and if it develops.

VICE CHAIRMAN SOLOMON. You're going to be testifying before the Banking Committees of both houses? Does this mean that the paragraphs in the budget resolution are stalled temporarily or what?

CHAIRMAN VOLCKER. What I'm talking about at this point is purely in a subcommittee in the House, the Monetary Policy Subcommittee. Whether the other things are dead, I don't know. There's going to be an attempt on the floor because it's not dead in the House resolution. There is some doubt about whether they will even pass the budget resolution. But in the Senate a strong protest has been made by the Banking Committee on jurisdictional grounds and I would think that might hold it at bay in the Senate. If there is nothing else, I will be in communication with you on the Redbook matter in writing. Okay. Thank you. If something amazing comes up, we'll have another consultation.

END OF SESSION